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ABSTRACT

In public higher education, as in elementary and secondary education, the educational infrastructure is weakening, and a shift away from public financing is occurring. This paper examines how the financing of public four-year institutions has changed from the later 19080s to the present, with emphasis on public comprehensive institutions. These changes are analyzed and their potential ramifications for different stakeholders are discussed. The discussion moves to the future of public higher education finance and assesses proposals to change the current prevailing finance structure significantly. The rapidly growing presence of market forces throughout the higher education sector threatens to compromise core principles such as academic freedom and scholarly standards of excellence, as the trends identified in this paper confirm. If managed with respect for the balance between public good and private initiative, these trends can represent an opportunity for positive change. For this to occur, the relations between policymakers and higher education must improve to sustain a discussion of modifying the financing structure. The next question is whether all major stakeholders are prepared for major policy changes. (Contains 8 figures and 72 endnotes.) (SLD)

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Financing State Colleges and Universities: What Is Happening to the "Public" in Public Higher Education?

Perspectives

Travis Reindl and Dana Brower

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Perspectives

American Association of State Colleges and Universities • May 2001

Financing State Colleges and Universities: What Is Happening to the "Public" in Public Higher Education?

Overview

From time to time, policymakers and analysts are reminded that paradox and unintended consequences are integral parts of the nation's policy landscape. A prominent and timely example of this presents itself in the realm of elementary and secondary education, where policies designed to alleviate teacher shortages (e.g. alternative/emergency certification) are in many cases further compromising the quality of classroom instruction. As a result of this unintended consequence, the paradox emerges that one of the most educated nations in the world is weakening its own educational infrastructure.

"It is impossible, I believe, to invest too much in education. . . . The idea that we can balance a budget by taking money away from higher education every time there is an economic slowdown is something that I believe ought to be discarded. . . . We simply can no longer make decisions on the basis of an outmoded notion that we can afford to cut back on postsecondary education when times are hard, believing that higher education funding is nonessential and discretionary. Education is not a faucet that you can turn on and turn off and expect to have real quality in either the education system or the citizens themselves. . . . If you cut education every time the budget gets tight, you're not going to have future prosperity either individually or collectively."

—Parris Glendening, Governor of Maryland
and Chairman of the National Governors Association

These phenomena are at work in the world of public higher education, and in a similarly troubling fashion. At the very time that postsecondary education in the United States is reaching all-time highs in significance as an economic and social good, the public higher education enterprise is gradually being privatized. In recent years, a combination of economic, political, and philosophical currents have contributed to a shift away from public funding of colleges and universities (i.e. federal and state appropriations) and toward private funding of these institutions (i.e. student tuition revenues, external fundraising, and entrepreneurial activities). This shift is not without consequence, as the financing of any public enterprise, including higher education, is as much about societal values as it is about dollars and cents. Such a shift also poses a number of difficult policy questions, all of which revolve around the central question—how "public" should public colleges and universities be in the 21st Century?

This paper aims to: **(a)** examine how the financing of public four-year institutions has changed from the late 1980s to the present, with a special emphasis on public comprehensive institutions; **(b)** analyze these changes and discuss their potential ramifications for different stakeholders; and **(c)** look ahead to the future of public higher education finance and assess proposals to significantly change the current prevailing financing structure.

The Paradox: Rising Public Expectations, Shrinking Public Support

Over the course of our nation's history, the view of higher education as a central part of our economic and social fabric has enjoyed broad acceptance. The articulation of this view dates back to Thomas Jefferson, who wrote:

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"I think by far the most important bill in our whole code is that for the diffusion of knowledge among the people. No other sure foundation can be devised for the preservation of freedom and happiness."[1]

More than two hundred years later, the United States is a vastly different place than when Jefferson championed the concept of the public university. The centrality of the university in our nation's social and economic fabric, however, has remained unchanged. In fact, our increasing dependence on knowledge and information has only increased the stock of colleges and universities as the generators and purveyors of that knowledge and information. This sentiment is aptly articulated by noted higher education observer Robert Zemsky, who states that:

"In fact, higher education has never been more important to society—as an enabler of individuals, an engine of economic transformation, and a source of community cohesion and national awareness."[2]

Others, such as Patrick Callan, expand on that reasoning, asserting that a college education is quickly becoming the *sine qua non* of full participation in the economic and civic life of the nation.[3] The intuitive logic of this line of argument is buttressed by the following considerations:

Virtually all of the academics, campus administrators, and government and business leaders responding to a 1998 query by Public Agenda agreed with the statement that "A strong higher education system is key to the continued economic growth and progress of the U.S."[4]

A majority of the 10 occupations expected to post the fastest growth from 1998 to 2008 require an associate's degree or higher (including the four fastest-growing). Over this period, the number of jobs requiring an associate's degree or higher is projected to increase 23 percent, compared with a projected increase of just 13 percent for jobs requiring less than a college degree.[5]

Economists such as Caroline Hoxby of Harvard University argue that several factors underscore higher education's role as an economic growth engine for the nation, including: **(a)** the high correlation between educational attainment and economic growth in the United States; **(b)** the fact that the United States has a comparative advantage in producing goods and services with high skill content; and **(c)** the extent to which growth of the technology-related sectors of the economy depends on an ample supply of educated labor.[6]

Nearly two-thirds of the parents of high-school students surveyed in 1999 by Public Agenda agreed with the statement that a college education is "absolutely necessary" for their child/children. For parents from racial and ethnic minority groups, the percentages were even higher.[7] [See Figure 1]

Recent federal analyses indicate that college graduates are more than twice as likely to engage in volunteer work and political activity than high school dropouts, and are less than half as likely to participate in public assistance programs.[8]

By this accounting, there appears to be a simple and straightforward case for maintaining and even increasing public investment in the nation's higher education system. The promise of social advancement and economic development suggested above, combined with a widespread public affirmation of the necessity of a postsecondary credential, promotes a view of higher education as a strategic investment, on par with fiscal commitments to public safety, health care, and national defense. Following this line of reasoning might also lead those unfamiliar with contemporary higher education finance to assume that the nation is in the midst of a "golden age" for public colleges and universities.

The reality is substantially different. The past two decades have been among the most turbulent in history for the financing of public higher education in the United States. The story, in its most basic form, is this: states have provided significant increases for higher education in recent years, but higher education spending as a percentage of total state (general fund) spending has fallen considerably. The share of institutional revenue represented by state appropriations has declined significantly as well. In other words, the total funding "pie" for states and for institutions has gotten bigger, but higher education's piece of the state funding pie has not concomitantly

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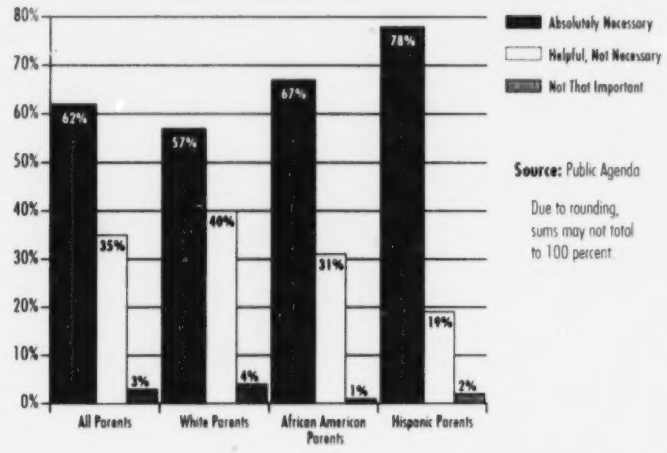
Figure 1

Perceived Necessity of College Education, High School Parents, 1999



grown, nor has the state's share of the higher education funding pie.

In real dollar terms, appropriations of state tax funds for operating expenses of higher education grew from $39.8 billion to $60.6 billion from FY91 to FY01, an increase of 52.3 percent.[9]

Despite rebounding slightly in the late 1990s, appropriations of state tax funds for operating expenses of higher education per $1,000 of personal income dropped from $9.74 to $7.94 from FY90 to FY2000, a decline of 18.5 percent.[10]

Higher education's share of state and local government expenditures also dropped—although not in a straight-line pattern—during the 1990s, decreasing from 7.49 percent in 19[illegible] to 6.28 percent in 1998, after peaking at 8.25 percent in 1992.[11]

Due to these trends, state appropriations have constituted a shrinking portion of total higher education revenues.

In 1988–89, state appropriations represented 39.9 percent of current fund revenues at public four-year colleges and universities.* By 1998–99, they represented only 31.5 percent of such revenues.[12] [See Figure 2]

The decline in state support was even more pronounced at public master's/comprehensive institutions, which have relied more heavily on state appropriations as a revenue source than their four-year public peers.

In 1988–89, state appropriations at member institutions of the American Association of State Colleges and Universities (AASCU)** constituted 50.6 percent of current fund revenues. By 1998–99, the proportion of current revenues constituted by state appropriations had shrunk to 40.9 percent.[13]

In the face of shrinking government revenues and rising costs, the private sector has picked up the funding "slack" for public higher education. Students and their families have shouldered the largest portion of this shift, through increased tuition and fees.

Between 1988–89 and 1998–99, the percentage of current revenues constituted by tuition and fees increased from 14.7 percent to 18.4 percent at public four-year colleges and universities. At AASCU institutions, tuition and fee revenues increased from 19.5 percent to 25.7 percent of current fund revenues during the same period, and at non-AASCU public institutions, they grew from 12.7 to 15.2 percent of current fund revenues. [See Figure 2]

Between 1988-89 and 1998-99, the current fund revenues generated by tuition and fees at public four-year institutions increased 107.4 percent. Revenues from state and federal appropriations increased 30.9 and 1.5 percent, respectively, during the same period.[14]

In addition to students and families, other private sector sources have begun funding larger shares of the cost of public higher education. Apart from state and local grants and contracts, revenues from university endowments and private gifts and contracts showed the largest rates of increase between 1988–89 and 1998–99—even larger than that of tuition and fees.

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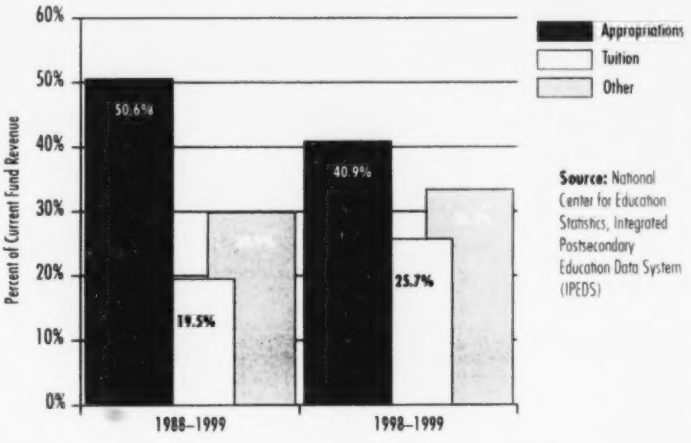
* To control for data aberrations, mean totals are used for this and all data generated through the U.S. Department of Education's Integrated Postsecondary Education Data System (IPEDS).

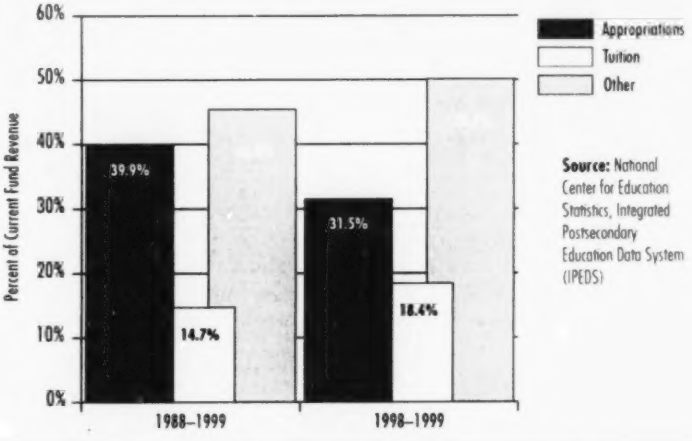
**AASCU member institutions are used here as a proxy for non-flagship public four-year institutions (primarily Master's/Comprehensive I and II and Doctoral II institutions, according to the Carnegie Foundation's *Classification of Institutions of Higher Education*).

Figure 2

Sources of Current Fund Revenue, AASCU Institutions, 1988–89 and 1998–99



Sources of Current Fund Revenue, All Public Four-Year Institutions, 1988–89 and 1998–99



During this period, mean endowment income at 4-year public colleges and universities increased 133.3 percent, while mean revenues from private gifts and contracts increased 110.9 percent.[15]

Given the unprecedented economic growth that dominated the last half of the 1990s and the arguments for increased public investment in higher education, why are public colleges and universities on a path of increasing privatization? During the period summarized above, a number of discrete developments converged, resulting in the unintended consequence of reduced fiscal priority for higher education. These developments include:

◆ **Increasing demand for public higher education.** As noted above, an increasing economic reliance on knowledge and information has prompted a significant rise in the demand for higher education. For more than two decades, enrollment at public four-year colleges and universities has gradually risen, and projections for the coming decade show the total climbing further.[16] Recent growth, however, has been uneven. In areas of the West and Southwest, for example, demand is outstripping institutional capacity. Nearly all of the recent growth has been among historically underserved and underrepresented populations (racial/ethnic minorities, first-generation college students), which bring a number of different academic and co-curricular needs to the campus. The combination of these elements poses an array of daunting challenges—fiscal and programmatic—to many institutions.

◆ **State fiscal pressures/competition for resources.** At the same time that demand for public higher education was on the rise, states were plagued with recession-induced budget shortfalls and rapidly growing demands from other services, particularly Medicaid and elementary/secondary education. Medicaid surpassed higher education as the second-largest claimant on state general fund spending in Fiscal Year 1993, a change that has not been reversed.[17] [See Figure 3] This situation owes to higher education's status as the largest single discretionary item in states' budgets. Because of this fact and higher education's ability to tap alternative revenue sources (such as student tuition), policymakers have tended to lavish spending on higher education in strong economic times and cut disproportionately in leaner times. This dynamic

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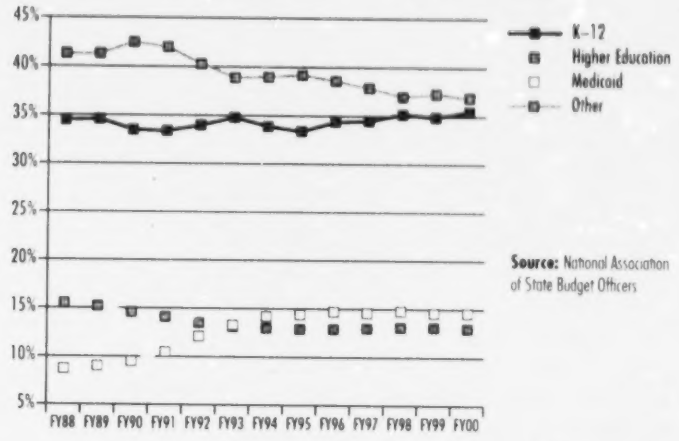
Figure 3

Share of State General Fund Spending, FY88 to FY 2000



Source: National Association of State Budget Officers

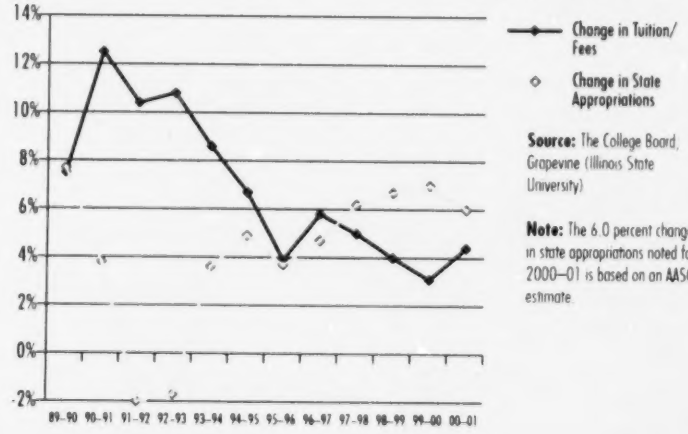
was coined the "balance wheel effect" by the late Hal Hovey, and has been borne out in both rudimentary and more rigorous correlation analyses of change in tuition and state appropriations levels.[18] [See Figure 4]

◆ **Developing market forces and philosophies.** The notion of higher education as an industry has grown considerably in recent times, fueled by breathtaking developments in information technologies and in the proliferation of for-profit providers making use of them. As a result, the views of "student as consumer" and "degree as commodity" have also become more prevalent. From a policymaker standpoint, this has meant more calls to "run higher education more like a business" and increasing emphasis on institution–private sector partnerships and entrepreneurial activity by institutions.[19]

◆ **Shift in public/private good emphasis with respect to higher education.** For many years, the policy world has debated whether the pursuit and attainment of a higher education is primarily a public good (benefiting the society as a whole) or a private good (benefiting the student receiving the education). While few would dispute the proposition that a college degree generates public and individual benefits, some contend that the public benefit aspect of higher education is given short shrift, citing a host of statistics on positive social correlates of education. Others view the public good argument as a marginal consideration, pointing to comparative employment and earnings data in arguing that the lion's share of higher education's benefit inures to the individual. This division was apparent in the 1998 Public Agenda survey, particularly between public and private sector leaders. For example, nearly two-thirds of the business leaders participating in the survey agreed with the statement that "Since students reap the benefits of going to college, they and their families should be responsible for paying most of its costs." Fewer than half of the academic and government leaders participating in the survey agreed with that statement.[20]

Figure 4

Change in Resident Undergraduate Student Charges and State Appropriations, Public Colleges and Universities, 1989–90 to 2000–01



Source: The College Board, Grapevine (Illinois State University)

Note: The 6.0 percent change in state appropriations noted for 2000–01 is based on an AASCU estimate.

While the debate on this point will likely continue far into the future, there is a relatively clear sense within the higher education community that the private benefit perspective is ascendant. Zemsky aptly observes this, writing:

> **"Whether it is deliberate or simply an accommodation to strained resources, the new message is that the primary return on investment in education is individual, rather than collective; that the public good is synonymous with the choices and the well-being of those individuals; and that those who benefit directly should assume the greatest share of the cost."[21]**

Such a statement prompts the following observations:

It is entirely possible that the ascendancy of the private good worldview may be due, at least in part, to the advocacy strategies of colleges and universities themselves. To the extent that institutions have used "learn more, earn more" and related arguments to promote themselves to policymakers and other external stakeholders, they may have unintentionally underemphasized the public benefits of their enterprise and contributed to the view that those doing the earning should do more of the paying—a prime example of unintended consequences unleashed.

At some level, it is extremely difficult, if not impossible, to neatly separate the public and private benefits of higher education. For instance, would not an aggregation of private benefit (i.e. a large number of persons enjoying increased earnings related to increased educational attainment) constitute a public benefit (i.e. improved ability to provide a social safety net, national defense, etc.)?

Thus, it would seem that the appropriate balance of funding responsibility for public higher education needs to recognize a modicum of inseparability between the public and private benefits of higher education.

Implications of the Public/ Private Paradox

The gradual privatization of an increasingly public good raises a number of concerns. These include: the impact on student access to and the quality of public higher education institutions, leadership and management concerns, and broader economic and social issues.

Student Access

Since the 1970s, the federal government has played a major role in broadening access to higher education through the provision of student financial aid. The Pell Grant has been the aid program most heavily relied upon to ensure access for the nation's neediest students. Unfortunately, the Pell Grant has lost significant purchasing power over the past several years. Between 1989-90 and 1999-2000, the constant (inflation-adjusted) dollar value of the maximum Pell Grant increased only $27. The purchasing power of the maximum Pell award therefore decreased from 49.2 percent to 38.6 percent of the annual cost of attendance at a public four-year institution.[22]

States' end of the bargain in broadening and maintaining access has traditionally been to keep costs as low as possible at their public institutions. Over the past several years, however, state appropriations for higher education have shrunk as a proportion of public college revenues. Research has demonstrated that public colleges and universities rely heavily on tuition to fill funding gaps that result from diminished state appropriations.[23] Raising tuition is arguably the easiest mechanism whereby institutions can increase their total revenue. Unfortunately, this practice shifts the burden for public college costs to students and threatens broad student access. This trend, if it continues, threatens to "price out" some students from receiving a public college education.

As it is, the chance to attend college in America varies tremendously based on family income. According to Mortenson (1997), students from families in America's bottom income quartile had a 33.6 percent chance of attending college. The chances for college attendance for students from the second, third, and top income quartiles were 54.9 percent, 66.9 percent, and 82.7 percent, respectively.[24] To compound already disparate college opportunities, the tuition increases of the 1990s hit low-income families the hardest from the perspective of raising the relative cost of college attendance. Since 1990, the cost of attending a public four-year college or university as a share of family income has risen more than 10 percentage points for low-income families. For middle- and high-income families, the cost of attending a public four-year college or university as a share of family income has remained nearly constant.[25] [See Figure 5].

Fortunately, college participation rates for students from low-income families did increase somewhat throughout the 1990s, growing from 20 percent in 1992 to 27.5 percent in 1998.[26] This is particularly encouraging in light of the increasing percentage of high school graduates that are pursuing a postsecondary education today.

This trend could be short-lived. Public college and university tuition in many states

increased at relatively low rates during the late 1990s due to the fiscal health of the states. A number of states approved measures during this period to freeze, roll back, or cap tuition increases at public colleges and universities. Economic times appear to be changing and a number of states are already ratcheting up tuition, underscoring the linkage between higher education appropriations and states' economic health.[27]

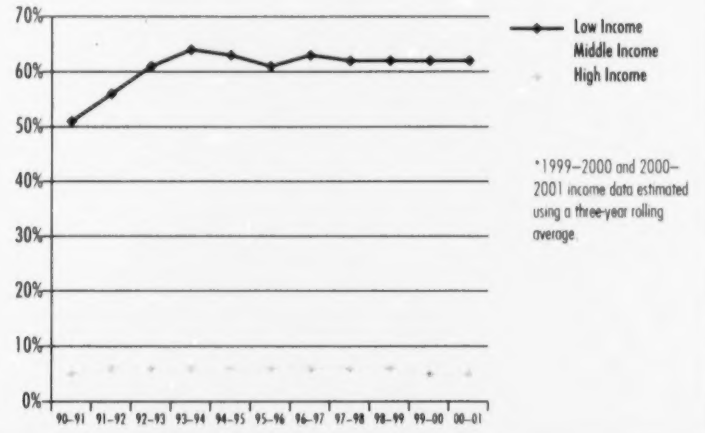
In recent years, colleges and universities have been picking up some of the slack in government funding by increasing expenditures for institutionally-based student grants and scholarships. From FY90 to FY96, public four-year institutions increased their institutional aid spending by 70.0 percent in constant (inflation-adjusted) dollars (from $1 billion to $1.7 billion).[28] However, an increasing proportion of both need- and non-need-based institutional grant dollars went to students from middle and upper income families throughout the 1990s.

State financial aid provided to students during the 1990s also experienced a shift, with an increasing proportion of dollars being directed toward non-need-based programs and away from need-based programs. Following the inception of Georgia's HOPE Scholarship in 1993, a number of other states followed suit in establishing merit-based scholarship programs with rather broad eligibility nets. Need-based aid to undergraduate students in Georgia has been completely eliminated since HOPE's birth. In the six other states that began funding broad merit-based aid programs between 1992 and 1998—Florida, Louisiana, Mississippi, Missouri, New Mexico, and South Carolina—the percentage of total undergraduate aid committed to need-based awards diminished from 55 percent in 1992-93 to 31 percent in 1998-99.[29]

The combination of these trends does not bode well for ensuring that public four-year colleges and universities are accessible to all academically qualified students who would attend them.

Figure 5

Cost of Attendance at Public Four-Year Institutions as a Percentage of Family Income, 1990–91 to 2000–2001*



Quality Concerns

In addition to threatening broad student access, diminished government funding for public higher education has the potential to undermine the quality of public education institutions around the nation. For those familiar with the higher education arena, the *U.S. News & World Report* college rankings simultaneously represent a much-loved (for those who receive top ratings) and greatly resented (for those who don't) annual assessment of the nation's leading colleges and universities. Interestingly – though perhaps not surprisingly, *U.S. News*' list of Top 50 national colleges and universities aligns remarkably well with the nation's best fundraising institutions. In fact, seventeen of the 20 colleges and universities (or 85 percent) receiving the most donations in 1999 are on *U.S. News*' 2001 list of Top 50 National Colleges and Universities.[30]

Although many higher education leaders bemoan an inappropriate emphasis on resources or "inputs" in the *U.S. News* college rankings, it is a simple and somewhat harsh reality that those institutions with the greatest resources have the most to spend on a variety of inputs that impact educational quality. Those inputs include faculty, technology, and technology training. In order for public higher education institutions to remain competitive with one another and with their private counterparts, it follows that a sufficient resource base must be maintained.

According to a recent comparison of faculty salaries at public and private colleges and universities, public colleges are losing leverage in the battle to recruit and retain top scholars. Alexander reports that:[31]

> At institutions with Research I Carnegie classifications, the pay gap for full professors at public versus private

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institutions increased from $1,300 in 1979-1980 to $21,700 in 1997-98. Salary disparities for associate and assistant professors at Research I institutions also increased, from $900 to $8,000 for associate professors and from $900 to $6,700 for assistant professors during the same period. [See Figure 6]

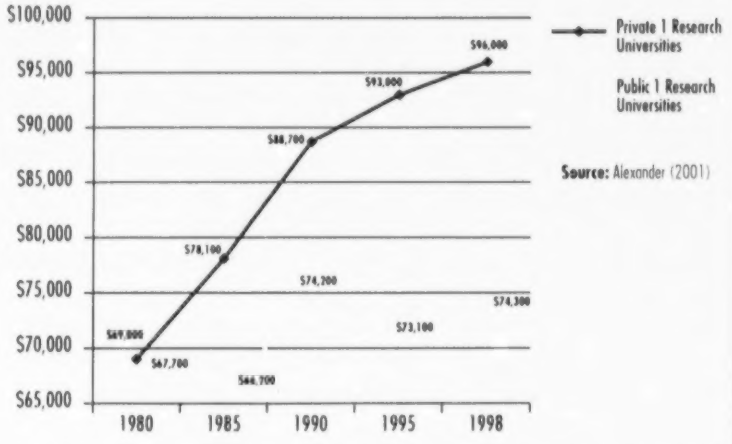
Salary disparities for full, associate, and assistant professors at Research II, Doctoral I, and Doctoral II institutions followed similar patterns, becoming more pronounced between 1979-80 and 1997-98.

Public institutions in some states in particular have lost salary leverage, due to higher education funding patterns over the past two decades. Arizona is one example. During the 1997-99 period, two of the state's three public universities (Arizona State University and the University of Arizona) ranked among the top 20 public universities for non-competitive salary rankings. Average salaries for full professors at ASU and UA were $21,800 and $21,000 less, respectively, than their private-institution counterparts. Additionally, between 1979-80 and 1997-98, all three of Arizona's public universities experienced dollar value losses of between $17,500 and $20,000 when their average full professor salaries were compared with those of private peers.

Technology is another arena in which institutional resources will have a significant impact on higher educational quality, innovation, and growth. Technology expenditures in higher education have increased significantly but sporadically in recent years.[12] In many ways, the potential

Figure 6

Average Faculty Salaries for Full Professors at Public and Private Research I Universities, 1980–1988 (1988 Dollars)



costs of technology for higher education remain unknown. Still, the capacity to purchase the latest technology available, as well as technology support services including training for faculty and staff, will require tremendous resource commitments in the future. The technology advantages enjoyed by institutions with greater resources—such as Internet2 access and lower ratios of users to technology support staff—threaten to further broaden the inter-institutional disparities that already exist.

When discussing the quality-funding relationship, the delicate subjects of higher education costs and efficiency enter into play. Higher education has not historically excelled at justifying its costs, perhaps because it has not excelled at clearly and simply defining its products or its outcomes. Therefore, the recent re-examination of public higher education expenditures resulting from budget cuts and diminishing state appropriations has unquestionably been constructive. Ultimately the quality of efforts public colleges and universities pursue, as well as the populations of students they serve, will be tremendously affected by the level of state support these institutions continue to receive. This is particularly true for public comprehensive institutions (e.g. AASCU institutions), whose funding sources have historically been less diversified and whose capacity to raise revenues from other sources may be more limited.

Leadership and Management Concerns

As a result of the reduced public funding share, state colleges and universities are increasingly looking to the private sector for financing. These institutions are seeking to supplement their revenue streams through a variety of mechanisms, including individual gifts, corporate and industry partnerships, and the creation of business/entrepreneurial ventures. State legislatures have begun to provide incentives to encourage public colleges and universities to seek increased

revenues outside the appropriations process. These incentives take a variety of forms, including matching gift or endowment programs, tax breaks for corporations and individuals contributing to colleges and universities, and financing for higher education/corporate partnerships.

Current examples of such efforts include:

The State of **Maryland** operates a number of university-run business incubators, and provides University System of Maryland faculty members pay incentives to engage in research for commercial interests. The state will match whatever companies pay faculty members for their research, up to $70,000 annually.[33]

In December 2000, **California** Gov. Gray Davis pledged $75 million to establish three research institutes run by a partnership between the University of California System and private industry. To be eligible for start-up and continuing funding, each of the institutes must raise private funds equivalent to twice their state match.[34]

In January 2000, **Wisconsin** Gov. Tommy Thompson requested that the Legislature allocate $317 million for research centers to promote the growth of a biotechnology-industry hub in Madison, where the state's flagship institution is located.[35]

The **Kansas** Board of Regents is currently lobbying its legislature to create a state tax credit for corporate contributions for a new system-wide endowment. The Regents plan to use funds from the endowment for higher education needs and projects that arise so that they are not bound by the legislature/state appropriations process for funding.[36]

During his campaign in **North Dakota**, newly elected Gov. John Hoeven pledged to create a $4 million dollar fund that would be used to match federal and private grants obtained by state colleges and universities.[37]

City University of **New York** (CUNY) officials are asking the Legislature to create a program that would match donations—up to $400—by the state's college-educated employees to their alma maters.[38]

For years, raising funds from individual donors has served as an essential means of supplementing public college and university budgets. So long as donors are relatively flexible with their gifts, funds earned through private contributions can be used to address a broad array of institutional needs. While fundraising was once the forte of private institutions of higher education, public institutions have more recently excelled in the development arena.

An examination of the results from two incentive programs illustrates that these programs can help bolster public higher education's fundraising efforts.

Florida initiated its Eminent Scholar and Major Gift Challenge Grant Programs in 1979 and 1985, respectively. Both programs channel funds into the Trust Fund for Major Gifts to finance endowments for public universities that raise corresponding private funds. The programs have been so successful that the state has had difficulty meeting its funding obligations to institutions. For that reason, university leaders expressed a desire to tighten program regulations in 2000.[39]

Kentucky's Research Challenge and Regional University Excellence Trust Fund Endowment Programs, which were created as a part of the Postsecondary Education Improvement Act of 1997, have also been successful in spurring institutional fundraising. For the 1998-2000 funding cycle, the state's two research universities and six regional institutions raised—and received from the state—$109 million dollars. This total represented 99 percent of the matching funds set aside for colleges and universities through these programs.[40]

While institutional fundraising and external partnering bring obvious benefits, these endeavors also entail significant costs. According to the most recent figures available from the Council for Advancement and Support of Education (CASE), higher education institutions spend approximately 16 cents to raise each private dollar.[41] Perhaps more importantly, policymakers must recognize the very real differences in capacity among public four-year institutions in this realm.

Differential capacity to garner private dollars. In public higher education fundraising, it appears obvious that some public colleges and universities—primarily research and doctoral institutions/flagship campuses—fare better in raising funds from individuals and corporations. Florida's Challenge Grant Programs provide an illustration of the disparities in institutional capacity to raise private funds:[42]

> Between 1979 and 1995, Florida's ten public universities raised $219 million in private donations as a part of the Eminent Scholar and Major Gift

Challenge Grant Programs. The state provided a $40.4 million match in funds.

The six public universities in Florida classified as Research or Doctoral institutions (University of Florida, Florida State University, University of South Florida, Florida Atlantic University, University of Central Florida, and Florida International University) raised approximately 84 percent of the private funds received during this period, or an average of $26.6 million each.

Florida's four public Master's/Comprehensive institutions (Florida A&M University, University of West Florida, University of North Florida, and Florida Gulf Coast University) raised the remaining 16 percent of the funds described above, or an average of $7.33 million each.

Although the University of Florida alone raised 43.3 percent of the funds received through June 30, 1995, even without factoring in the University of Florida's dollars, Florida's Research and Doctoral institutions on average raised more than twice their Master's/Comprehensive counterparts.

More recent program statistics bear out this pattern as well, only the divide is more marked. Between July 1, 1997 and December 31, 2000, public Research and Doctoral institutions in Florida received an average of $78.3 million dollars in donations detailed under the Eminent Scholars and Major Gifts programs. Master's/Comprehensive institutions raised an average of $14.7 million during the same period. Average state payouts (gift trust fund disbursements) to Florida's public institutions through the Eminent Scholars and Major Gifts programs during this period averaged $26.5 million at Research and Doctoral institutions and $3.1 million at Master's/Comprehensive institutions.[43] [See Figure 7]

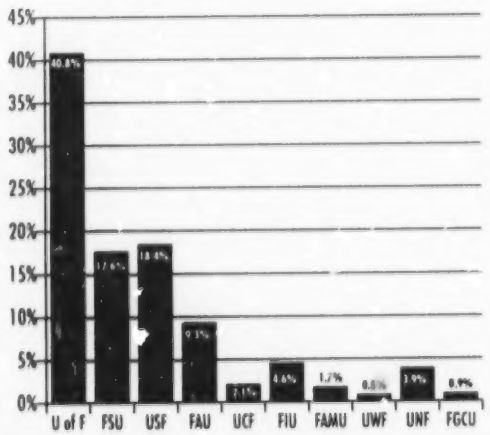
There are at least a couple of explanations for the disparities in fundraising between public Research and Doctoral and Master's/Comprehensive institutions. One is that the resource bases of Research and Doctoral institutions have historically been more diversified. Unlike Master's/Comprehensive institutions, which rely on tuition and fees as their second largest revenue source (next to state appropriations), research institutions' second largest source of revenue until recently had been federal research dollars. The slowing of federal research dollars and state appropriations in the late 1980s spurred a number of state institutions to more aggressively pursue private dollars.[44]

Staffing resources constitute a second reason for the capacity of Research and Doctoral institutions to raise more private dollars. Research and Doctoral institutions often have much larger fundraising enterprises than Master's/Comprehensive universities. This translates into a larger and more diversified approach to pursuing private resources. Increased staff size and diversity typically bring more distinct fundraising responsibilities (such as corporate relations, planned giving, and international development) and greater individual expertise. This expertise has become increasingly important as donors contribute to higher education in a variety of ways, each with its own complexities and legal contingencies.

For example, a growing number of donors are offering colleges gifts of illiquid or restricted stock.[45] It takes much greater expertise to evaluate these kinds of gifts,

Figure 7

Percentage of Payouts to Institutions, Florida Challenge Grant Program, 7/01/97 through 12/31/00



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and to decide if acceptance is worth the financial risk.[46] Venture capital funds represent another arena where significant expertise and resources are needed. Not surprisingly, it was investment in these types of funds that institutions credited for the amazing return rates (exceeding 40 percent) on top-earning endowments in fiscal year 2000.* Due to the complexity of managing venture capital funds and the well-established connections it often requires to gain access to the best funds, it is difficult for many smaller institutions to compete in this arena.[47]

What do these distinctions means for policymakers? Should more incentive programs to raise private dollars for higher education be initiated? Do they represent poor public policy? Overall, incentive programs for public higher education fundraising are not a bad idea, and they appear to have been effective in stimulating fundraising efforts. It is extremely important that policymakers recognize the distinctions between and the varying capacity of different public institutions to generate private funds. The assumption that institutions are on an equal playing field (i.e. offering equal rewards and incentives for all types of institutions) could otherwise widen existing gaps in public institutions' revenues and relative wealth.

Differential capacity to form corporate partnerships. Just as Research and Doctoral institutions seem to have greater capacity to raise private funds, these institutions are often in a better position to leverage partnerships with corporations and industry. Why? Because so many of these efforts center around research. Public Research and Doctoral institutions have been receiving funding for their research efforts for more than a half-century, largely from the federal government. Research remains a hallmark of these institutions today, and places them at a distinct advantage over their public four-year peers in competing for corporate research dollars. Much of the funding that states are providing for the development of university-corporate partnerships is going to research and flagship institutions.[48] Community and technical colleges' share of state funding is also on the rise. Among the various sectors of higher education, community and technical colleges have generally received the largest increases in state support for the past few years. Some of the significant increases to community college systems are the result of economic and workforce development initiatives.[49] If policymakers are going to create incentive programs for public higher education to partner with the private sector, they need to consider the long-term financing implications of these programs for all the public colleges and universities in their respective states.

Influence of external linkages on public higher education institutions and their missions. The conditions, or "strings," potentially attached to private dollars present another concern regarding the increase in the private financing of higher education. Both individuals and corporate/industry partners can place parameters on funding opportunities that constitute an ill fit with institutions' missions and/or current operations. Higher education leaders must therefore be careful to assess potential gifts and private financing opportunities to determine their fit with institutional mission and values. Sometimes, the opportunity to leverage private funds may itself present the temptation for public colleges and universities to reach outside the bounds of their present course or priorities to obtain additional financing.

Shift from Basic to Applied Research—One of the concerns surrounding the growing corporate investment in higher education is that corporate dollars will leverage a shift toward applied research and away from basic research.[50] Most corporations that invest in higher education do so for the potential practical outcomes of these collaborations, such as the products and patents that may result. In an environment in which colleges and universities become increasingly dependent on corporate dollars, will faculty members lose academic freedom or the freedom to pursue research that advances their field or discipline? If so, will that loss result from the potentially greater fiscal returns for applied research?

Balance of Public Service and Corporate/Private Interest—What impact will increased private linkages have on the public service component of the higher education mission? Most students of American higher education are familiar with its historical three-pronged mission of research, teaching, and public service. Although the public service component of colleges and universities is somewhat vague by definition, few would deny its historical significance for the nation as a whole. In light of state governments' diminishing responsibility for public higher education costs, what will become of the public service mission of state colleges and universities? Will these institutions continue to serve their publics in the ways that they have, or will their service roles shift to accommodate new and changing sources of financing? Also, do states' current emphasis on

*Most of these returns were at private institutions, but two notable exceptions were the University of Michigan and the University of Virginia.

economic development and industry growth presume that these interests effectively reflect state populations' primary service needs? If not, will institutions have sufficient time and resources to address other public service needs while simultaneously pursuing additional private funding sources?

Influence on the Curriculum—The dual forces of education and practical training have existed at odds in academe for at least a century.[51] However, Altbach states that the last two decades have brought an increasing emphasis on vocationalism in higher education around the globe. Both students and employers have voiced their expectations that a university education should have relevance for and more directly prepare students for a variety of jobs.[52] The growing link between corporations and higher education has the potential to advance this trend, as well as to place additional academic emphasis on the sciences.

In such an environment, what will happen to the liberal arts? Will they become a voluntary element of a baccalaureate degree? If so, will the arts and humanities continue to be worth the "costs" they represent for public institutions?

Expectations for Higher Education Leadership—An additional ramification of higher education financing trends is the impact these realities will have on the organization of higher education institutions and the men and women who lead them. A decade ago, *The Chronicle of Higher Education* reported that colleges and universities were increasingly tapping proven fundraisers—often former advancement or development officers—as institutional CEOs.[53] This occurrence appeared more frequently at private institutions. Today, fundraising has becoming an increasingly critical skill for *all* college and university presidents. Are all public university presidents and chancellors adequately prepared to meet these evolving demands? Are all public and private institutions equally well-equipped to attract and hire proven, highly successful fundraisers as their leaders?

Broader Economic and Social Concerns

Intellectual Property Issues. Intellectual property and patent issues represent another concern surrounding recent financing trends. Who will, and should, technically own the rights to the fruits of university-industry collaborations—faculty or corporate investors? Should the institutions that house and support this research primarily benefit from its outcomes, or should these benefits inure to the state governments that provide incentives for business-higher education partnerships?

Currently, large, well-established companies hold the licenses for approximately 90 percent of the products conceived in university laboratories.[54] If institutions increasingly invest more resources into these partnerships, however, it seems they should generate appropriate returns. These returns should not only be reinvested in continuing collaborations but should also benefit and improve the quality of the entire educational enterprise. Regardless, the incentive and legal structures that are put in place to govern higher education-business collaborations will have a major impact on the continuing nature of these relationships, and the relative power and prosperity of faculty, colleges and universities, and corporations.

Ramifications of a market-driven system. Perhaps the largest concern in considering the shifting funding base for higher education is where that trend may ultimately lead. As different funding sources increase their investment in higher education, it follows that their expectations will increase. Some critics have cited students' and families' increasing share of higher education costs as one of the reasons for their enhanced expectations. Corporations' and philanthropists' respective shares of total public higher education revenues are also growing. What will these and other groups expect in return for their investments?

How may an increased private funding base for public higher education impact states' abilities to regulate colleges and universities? The growth trend in states' use of performance funding and budgeting programs seems counterintuitive to the diminishing share of public higher education costs that they support. Will a future attenuation of state appropriations significantly lessen states' abilities to regulate public colleges and universities, or at least the most wealthy among them? If so, who will regulate America's public universities?

Finally, what will happen if a search for funds becomes the primary drive of public higher education? What will the market emphasize in higher education? Knowledge for knowledge's sake, or practical/profitable knowledge? Access for all students, or buying the best? The use of technology for convenience or for enhanced learning/learning applications? And, if the market emphasizes different things than those that higher education institutions traditionally have, will that necessarily be negative?

The Road Ahead

While it is essential for policymakers and higher education leaders to understand recent changes in higher education finance and place them in context, perhaps more important is the question of what lies ahead for the funding of state colleges and universities. The possible ramifications of continuing privatization of these institutions, as described above, underscore the importance of addressing these issues through careful deliberation, rather than by default. Such deliberations must be informed by an awareness of the opportunities and constraints of the emerging policy environment. This environment will be shaped by the convergence of:

- States' economic and fiscal circumstances;
- Prevailing political realities; and
- Consideration of different approaches to higher education finance policy

Simply accounting for these factors will not be enough. Public higher education's stakeholders must also be prepared to recognize the interplay between and among these factors.

Economic and Fiscal Circumstances

Short- and long-term fiscal challenges at the state level have contributed substantially to the ongoing financing shift at state colleges and universities. Looking ahead to the future, it does not appear that these challenges will ease. They are in fact likely to squeeze institutions and systems even harder.

The current competitive dynamics of state budgeting will continue, and will intensify in the event of a general economic slowdown. The resurgence of increasing health care cost and the concomitant rise in Medicaid spending, combined with policymaker emphasis on K-12 education and other priorities, relegates higher education to secondary focus. This scenario is already playing out in a number of states (especially in the South), where abruptly slowing revenues and greater-than-anticipated Medicaid spending have precipitated belt-tightening measures that include smaller funding increases and even cutbacks for public colleges and universities. A prime illustration of this comes from Alabama, where policymakers debated whether to cover a shortfall in the state's education trust fund by sharing the burden between K-12 and higher education or by shifting the burden to higher education. Nationally, the appropriations outlook for the year ahead is considerably less optimistic than last year's forecast and the rate of increase for tuition is again on the rise, which strongly suggests that the "balance wheel" notion is alive and well. The emerging reality supports Hovey's prediction in 1999 that:

> Given the fiscal environment predicted [here] for the next decade, the fiscal outlook for state support of higher education is not good from the perspective of advocates for increased state spending for higher education. Use of higher education as a balance wheel will continue.[55]

Most states face looming structural imbalances in their revenue-generating systems, especially given the changing nature of the economy and the population. As states make their way into the 21st Century, many of them are relying on tax systems firmly rooted in the economic and demographic bases of the 20th Century (and in some cases the 19th Century). Some of the primary revenue risks for states include:

- The continuing economic shift from goods production to service/information production, which will adversely impact states that rely heavily on sales and use taxes, as most of these systems exempt a broad range of goods and services that are increasingly being consumed.

- The emergence of e-commerce, which also places states dependent on sales tax at risk, since existing legal precedent places remote sales lacking nexus (physical presence of the vendor in a given state) beyond the reach of taxation.

- The aging of the population, which is likely to bring increased consumption of many goods and services not reached by sales taxes of many states (food, prescription medications, medical services, etc.). Older citizens are the principal beneficiaries of a range of tax relief programs (homestead exemptions for property taxes, "circuit breakers" for income taxes, etc.), owing to the fact that the elderly were one of the poorest segments of the population a generation ago. This is no longer the case, but political realities may make it extremely difficult for policymakers to substantially change or discontinue these programs.[56]

- States that rely heavily on personal income taxes, which may have to deal with a significant amount of volatility in the collection of these revenues. A recent analysis by the Rockefeller Institute of Government found a large degree of elasticity in income tax revenues, which means that positive and negative changes in economic activity are magnified in income tax receipts. This

> volatility is especially pronounced in systems that are reliant on capital gains and other non-wage revenue, as evidenced by the revenue impact of recent swings in the stock market.[57]

As a result, analysts such as Hovey have diagnosed a structural imbalance between state revenue and spending patterns, with as many as 39 states posting a structural deficit (i.e. systemic imbalance between revenues and expenditures).[58] [See Figure 8] The bottom line: the "balance wheel" concept for higher education funding may become even more prominent in the years ahead if states do not address the mounting disconnect between income and outlays. It is critical that campus and system leaders gain at least a basic level of familiarity with the potential strengths and weaknesses of their state's revenue and expenditure patterns, as such knowledge will be necessary for informed strategic planning.

Prevailing Political Realities

Because taxing and spending decisions are inevitably made within a political context, it is therefore essential for the higher education community to have a clear sense of the constraints (real or perceived) facing their elected leaders. While the political and other ingredients of what John Kingdon refers to as the "policy soup" vary considerably from state to state, some of the most potent are broadly shared.

Voter sentiment on budget and tax issues. Though nearly all states have significantly increased their overall spending over the past several years, they have also approved substantial tax cuts, ostensibly to satisfy voter demand for lower tax burdens. Judging from the number of "no new tax" pledges issued by congressional and statehouse candidates and the number of revenue- and expenditure-limiting measures facing voters and lawmakers in recent years there still appears to be a relatively strong anti-tax sentiment among the nation's electorate. A key example of this trend and its impact on higher education emerges in Washington State, where voters decided to dramatically limit state and local revenue-raising by passing Initiative 695 in 1998 and Initiative 701 in 2000. The resulting fiscal squeeze has prompted Gov. Gary Locke to offer a higher education funding plan that would allow for a tuition increase of up to 40 percent over the next six years.[59] As the initiative and referendum movement increasingly turns its attention to fiscal issues, state higher education funding could become more vulnerable.

Term limits. For states operating under term limits, fiscal policymaking can be particularly challenging. While there remains relatively little empirical evidence regarding the impact of term limits on the legislative process, anecdotal evidence from lawmakers and their staffs suggests several effects of the time caps. These include reduced efficiency in legislative deliberations and operations (with staffers remarking that "The same debates occur year after year"), a relative lack of interest in long-term issues (since those issues will outlast lawmakers' abbreviated tenures), and less focused attention to issues (stemming from increased bill volume).[60] In such a setting, discussions of public higher education finance may only recede further on the policy agenda.

In sum, the prevailing fiscal and political currents do not augur well for a reclamation of the public's financial stake in public higher education. While the nation's state colleges and universities are still far from general privatization, environmental factors

Figure 8

State/Local Surplus or Shortfall as Percentage of Baseline Revenues Projections for Year 8 (2005)

Iowa	2.7%
Nebraska	1.5%
North Dakota	0.9%
Ohio	0.9%
Kentucky	0.5%
Connecticut	0.4%
Michigan	0.4%
New York	0.3%
Maine	0.1%
Minnesota	0.1%
Massachusetts	0.0%
Oregon	-0.1%
Illinois	-0.4%
Pennsylvania	-1.3%
West Virginia	-1.4%
Wisconsin	-1.5%
Missouri	-1.8%
Kansas	-1.9%
Mississippi	-2.0%
Oklahoma	-2.1%
Arkansas	-2.3%
Louisiana	-2.5%
California	-2.8%
Rhode Island	-2.9%
Delaware	-3.0%
New Jersey	-3.3%
North Carolina	-3.7%
United States	**-3.8%**
Utah	-4.3%
South Carolina	-4.6%
Vermont	-4.6%
Alabama	-4.8%
South Dakota	-5.0%
Indiana	-5.7%
Montana	-5.7%
Georgia	-6.5%
Washington	-6.7%
Virginia	-6.8%
Colorado	-7.0%
Maryland	-7.1%
Texas	-7.8%
New Hampshire	-8.2%
Florida	-8.8%
Tennessee	-9.1%
Arizona	-10.5%
Wyoming	-10.6%
New Mexico	-12.0%
Idaho	-13.2%
Hawaii	-15.1%
Alaska	-16.4%
Nevada	-18.3%

Source: State Policy Research, Inc.

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suggest that the gradual erosion of this public stake is likely to continue.

Structural Changes

As this public-private financing shift has unfolded, various proposals to substantially change the current institutional financing structure have made their way onto the policy agenda. These proposals range in scale from incremental to wholesale, but all tackle the question of how—or whether—the relationship between states and their public colleges and universities should be reconfigured. A couple of the relatively recent entrants into this discussion include:

Charter/compact colleges and universities. One of higher education's responses to the volatility of state funding in the 1990s was the development of compacts between state leaders and college/university systems. Generally speaking, a compact would guarantee a specified level of funding for the colleges and universities over a given period of time. In exchange, the colleges and universities would pledge to hold tuition increases to a certain level, implement a given amount of management efficiencies, or reach some similar administrative target. States that have experimented with this approach include Maine and California.

The notion of the charter college or university simply expands the premise of a compact to make it a more integral and lasting part of the state's higher education funding structure. As defined by MacTaggart and Berdahl, the charter college is a public institution that has been delegated substantial authority to manage its affairs under a guaranteed block grant from the state, subject to achievement of specified performance objectives. This concept has seen relatively little real world application, with the notable exception of St. Mary's College of Maryland. In 1992, the Maryland General Assembly designated St. Mary's a "Public Honors College," granting it a lump sum budget and exemption from a range of state regulations (procurement, personnel, capital development) in exchange for a commitment to increase tuition but hold low-income students harmless by increasing financial aid.[61] Other states that have considered or are considering the charter concept (or a variant of it) include:

Massachusetts—In 1997, the chancellor of the Board of Higher Education, Stanley Koplik, offered a proposal to create "Vanguard Colleges." Under Koplik's plan, campuses accepting the Vanguard designation would agree to exceed performance benchmarks set by the Board of Higher Education and would in turn receive "greater operational freedom, fiscal autonomy, and faculty benefits." The proposal was short-lived because its terms included the replacement of faculty tenure with renewable 1-, 3-, and 5-year contracts, and the elimination of collective bargaining.[62]

Virginia—In its final report (February 2000), the Governor's Blue Ribbon Commission on Higher Education proposed the establishment of Institutional Performance Agreements (IPAs). This would be initiated by the colleges and universities, negotiated with the relevant state agencies, and ultimately approved by the General Assembly. The IPA would be six years in length and would furnish institutions with "adequate, stable, and predictable" funding and managerial and operational flexibility. In exchange, the institutions would provide specified performance on measures developed in consultation. As recommended by the panel, the IPAs could be renegotiated, but only under certain circumstances.[63]

Colorado—In a November 2000 report to legislators, the Northwest Education Research Center (NORED) proposed a program in which qualifying institutions would enter into six-year agreements with the state, producing "more efficient and effective higher education services" (as measured by specific indicators) in exchange for stable funding and maximum regulatory relief. Institutions would also be granted tuition-setting authority (within parameters set by the state), but the state would retain the power to delineate institutional role and mission.[64]

Proponents of the charter concept argue that appropriately made charter designations would bring a modicum of stability to the public funding of colleges and universities, and at the same time would promote efficiency and innovation. Supporters predict that the expanded flexibility/authority would have positive effects such as the reinforcement of academic freedom, increased ability to recruit and retain quality leaders, and increased responsiveness to student needs.

Charter skeptics fear that granting institutions a considerable degree of autonomy could result in a significant reduction of access (via increasing tuition or admissions standards), degree/program duplication with other institutions in the state, and increased potential for waste, fraud, and abuse stemming from reduced state oversight.[65] Perhaps the most pressing question related to the charter concept is whether it can fit within the deeply embedded structures and relationships of the academy. Unlike charter schools in the

K-12 world, charter colleges are not *ex nihilo* creations, which means that policies and procedures must account for traditions and relationships that have built up over time. For policymakers, this means the ability to relinquish a significant amount of control and discretion in higher education decision-making. In the case of St. Mary's of Maryland, some state officials have expressed hesitation about giving up even a small amount of control over funding decisions. For institutions and systems, this could entail the rethinking of practices such as tenure and collective bargaining, as well as a general shift toward a less protected, more entrepreneurial management approach. Thus, the more salient question on the charter college front may not be whether or not states or institutions are willing to pursue the concept, but whether or not they are ready to do so.[66]

Shifting primary state subsidy from institutions to students. A more radical and market-oriented approach to public higher education finance calls for the shifting of the basic funding relationship from state-institution to state-student. In other words, the current financing pattern would be reversed—instead of institutions receiving the preponderance of funding through appropriations and students receiving the balance through financial aid, students would be given sizable grants (need-based in most formulations) to be applied at either public or private institutions in the state. Accordingly, the state's public colleges and universities would receive a relatively small operating stipend. This concept has made its way into the policy spotlight in at least a couple of states in recent years.

Minnesota—*An Agenda for Reform*, published in 1995, called for the distribution of state higher education appropriations to be changed from 90 percent institutional and 10 percent student to 30 percent institutional and 70 percent student. A 1997 report to the legislature echoing this call, added the following context: "The assumption is that a public college or university would be driven to improve its product to attract consumers, like a business."[67]

Texas—The Special Commission on 21st Century Colleges and Universities included in its final report (January 2001) a recommendation to provide all resident students a grant equal to tuition, fees, and books at a public institution to attend the state institution of their choice (instead of providing an equivalent amount to institutions in the form of a general appropriation). The commission called for a significant degree of deregulation to accompany the new financing structure. In justifying its recommendations, the commission wrote that a deregulated, student-centered system will result in better resource allocation decisions, which will in turn provide more access for students and greater excellence in programming.[68]

Proponents of this approach argue that several factors underscore its suitability for the emerging higher education world. One is improved responsiveness to the "student as consumer," whereby institutions would respond to competitive pressures with increased flexibility and innovation, more curricular focus, and less extraneous activity. Another is improved efficiency, relating to the fact that a broad institutional subsidy provides equal benefit to needy and non-needy students, while student subsidies awarded on the basis of need could better target expenditures and thus improve economic access to higher education.

Finally, some proponents of the student subsidy model even propose expanding the subsidized student's choice to public and private colleges and universities in a given state, arguing that the "higher education as public good" argument is insufficient justification for guaranteed public subsidy for institutions. In proposing a change in the financing structure of the Oregon higher education system, Pozdena wrote that "...it is fair to say that the empirical record only weakly supports the notion that higher education returns have a social as well as private component."[69]

While the logic of empowering consumers and following a more market-based approach is intuitively appealing, it is also accompanied by a severe limitation in the case of colleges and universities. According to basic economic theory, information plays a pivotal role in the rise and fall of markets. Theorists maintain that one of the primary contributors to market failure is an asymmetry of information in the producer/consumer relationship. In other words, a market for a given commodity cannot be sustained if the seller cannot obtain adequate information about the behavior of the buyer, and vice versa.[70]

Similar potential exists in the higher education market. A number of polls and studies in recent years have documented the extent to which the general public is unaware of what colleges offer, how they are funded and set their prices, and how to access financial aid.[71] This information gap is likely to grow, particularly as the number of higher education providers, modes of delivery, and consumer financing options proliferate. In such an environment, simply turning parents and students loose in the market with large subsidies could result in inefficient use of the subsidies. If such a

subsidy model were to be credibly attempted in the emerging market, it would require a massive effort to equip prospective consumers with more and better information.

Conclusion

In his valedictory address to the American Council on Education, outgoing president Stanley Ikenberry recently warned his colleagues that the rapidly growing presence of market forces throughout the higher education enterprise threatens to compromise core principles such as academic freedom and scholarly standards of excellence.[12] The trends discussed in this paper certainly lend credence to that warning. If recognized and managed with a respect for the delicate balance between public good and private initiative, these trends could represent an opportunity for unparalleled innovation and positive change for the nation's state colleges and universities. Reaching that difficult but desirable end requires two elements, both of which have little to do with dollars and cents.

Policymaker/higher education relations. Any substantial re-negotiation of the funding base for institutions and systems will demand candid and thoughtful exchanges between higher education and political leaders. This sort of exchange is feasible only insofar as it is built on a general foundation of trust and comity between a state's elected leadership and the leadership of its colleges and universities. The prospects for lasting change or innovation are slim unless the formal and informal relationships between these entities are rooted in these values. For some states the challenge may be twofold—strengthening the bridges between the campus and the statehouse while exploring options to confront revenue challenges.

Policymaker/higher education preparedness. Provided that the general higher education/policymaker relationship can sustain a serious discussion of modifying the financing structure, the next question is whether or not all of the relevant stakeholders are equipped for major policy change. For example, are states prepared to deal with issues pertaining to deregulation, conflict of interest, intellectual property, and other questions related to public sector entrepreneurship? Are institutions and systems organizationally ready to be more entrepreneurial, to the extent of reorganizing operations and changing incentive structures?

The maturing of American public higher education as an economic and social institution is naturally accompanied by continuing questions related to its scope and purpose. As the nation industrialized in the 19th Century, the answer came in the form of the Morrill Act. In the aftermath of unparalleled world conflict in the 20th Century, the answer came in the form of the GI Bill. As we apprehend 21st Century challenges such as how to fund public colleges and universities, our answer will speak volumes about how we view our national prospects in the world that is unfolding.

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